

## Internal Guidelines on Corporate Governance of Fedbank Financial Services Limited

### PREAMBLE AND COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE:

Fedbank Financial Services Limited ("the Company/ Fedfina") is a subsidiary of The Federal Bank Ltd. and is a Non Deposit Accepting –Systemically Important Non-Banking Finance Company ("NBFC-ND-SI") and is registered with the Reserve Bank of India ("RBI") as a "Loan Company-Non Deposit Taking".

The Company recognizes its role as a corporate citizen and endeavors to adopt the best practices and the highest standards of Corporate Governance through transparency in business ethics, accountability to its customers, regulators and others. The Company's activities are carried out in accordance with good corporate practices and the Company is constantly striving to better them and adopt the best practices.

The Company believes that good corporate governance results from sound processes that ensure that the Directors are well supported by accurate and timely information, sufficient time and resources.

The Company also believes that a good corporate governance system is necessary to ensure its long term success. The Company ensures good governance through the implementation of effective Framework, Policies and Procedures, which is mandated and regularly reviewed by the Board or the Committees of the Board.

Reserve Bank of India (RBI) vide its master Direction No. RBI/DNBR/2016-17/45 DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 directed NBFCs to frame internal guidelines on corporate governance approved by the Board of Directors. Accordingly, this Corporate Governance Code of Fedbank Financial Services Limited (Company) is framed in the spirit of the said circular of RBI and is approved by the Board of Directors of Company.

### DEFINITIONS

In this Framework, unless the context otherwise requires:

**'Act'** means the Companies Act, 2013 and rules thereunder includes any statutory modification(s), enactment(s) or re-enactment(s) thereof for the time being in force;

**'Audit Committee'** means the Audit Committee of the Board constituted pursuant to Section 177 of the Companies Act, 2013;

**'Board of Directors' or 'Board'**, in relation to the Company, means the collective body of the directors of the Company;

**'Chief Financial Officer'** means Chief Financial Officer as defined in Section 2(19) of Companies Act, 2013 or any modification or re-enactment made thereunder for the time being in force;

**'Company'** means Fedbank Financial Services Limited (Fedfina);

**'Company Secretary'** means a company secretary as defined in Section 2(24) of Companies Act, 2013 or any modification or re-enactment made thereunder for the time being in force;

**'Directions'** means Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 and shall include any amendment thereto;

**‘Directors’** means the directors of the Company;

**‘Independent Director’** means an independent director defined in Section 2(47) of Companies Act, 2013 or any modification or re-enactment made thereunder and any other applicable laws for the time being in force;

**‘Nomination Committee’** means the Nomination and Remuneration committee of the Company, constituted and re-constituted by the Board from time to time;

**‘Risk Committee’** means the Risk Management Committee of the company constituted and re-constituted by the Board from time to time as per the Directions set forth by the Reserve Bank of India in this regard;

**‘Senior Management’** means personnel of the Company who are members of its core management team excluding Board of Directors. This would include all members of management one level below the Executive Directors, including all functional heads as defined in the Companies Act, 2013.

## **GOVERNANCE STRUCTURE:**

### **A. BOARD OF DIRECTORS**

The Board of Directors along with its Committees shall provide leadership and guidance to the Company’s management and direct, supervise and control the performance of the Company.

#### **Composition of the Board:**

As per the Company’s Articles of Association, the Board’s strength is required to be minimum of three and maximum of six directors consisting of three Nominee directors, One Managing Director & two Independent Directors.

The Board of Directors of the Company shall have an optimum combination of Executive and Non-Executive directors, with not less than fifty percent of them being Non-Executive Directors. In case of a Non-Executive Chairman, at least one-third of the Board should consist of Independent Directors and, in case of an Executive Chairman; one-half of the Board should consist of Independent Directors.

A Director shall not hold the office of Director in more than 20 companies including maximum of 10 public limited companies. Explanation-Private companies which are subsidiaries of a public limited company shall be counted as a public company. All the Directors shall make the necessary annual disclosure regarding their directorships and Committee positions and shall intimate changes as and when they take place.

The Board shall periodically review Compliance Reports of all laws applicable to the Company prepared by the Company as well as steps taken by the Company to rectify instances of noncompliance.

#### **Meetings and Quorum:**

The board of directors shall meet at least four times a year, with a maximum time gap of one hundred and twenty days between any two meetings.

One-third of the total strength of the Board, or two Directors, whichever is higher, shall form the quorum for a meeting.

## **B. COMMITTEES OF THE BOARD:**

The Board functions as a full Board and also through various Committees constituted to oversee specific areas. The Committees have oversight of operational issues assigned to them by the Board.

The minutes of the meetings of all Committees of the Board shall be placed before the Board for noting.

Accordingly, the core Committees constituted by the Board in this connection are as follows:

### **1. AUDIT COMMITTEE:**

The Company has in place an Audit Committee constituted under the provisions of Section 177 of the Companies Act, 2013 and RBI Master Direction No. RBI/DNBR/2016-17/45 DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 on NBFC-SI Non-Deposit taking Company and Deposit taking Company Directions, 2016.

Composition of the Committee:

The Audit Committee shall comprise of at least three non- executive directors with independent directors forming a majority. Majority of the members of the Committee including its Chairperson shall be persons with ability to read and understand the financial statements. The Company Secretary shall act as the Secretary to the Committee.

Meetings & Quorum:

The Committee shall meet at least four times a year and not more than 120 days shall intervene between two consecutive meetings. The Chief Financial Officer, Internal Auditor and a Representative of the External Auditor may be invited to be present as invitees for the meetings of the Audit Committee, wherever necessary. The Auditors of the Company and the Key Managerial Personnel shall have a right to be heard at the meetings of the Audit Committee when it considers the Auditor's Report but shall not have the right to vote.

The quorum for transacting business at a meeting of the Committee shall be at least two or one-third of the members of the Committee, including independent directors present in majority.

Responsibilities:

The Audit Committee shall have discussions with the auditors periodically about internal control systems, the scope of audit including the observations of the auditors and review the unaudited quarterly and audited annual financial statements before submission to the Board and also oversee compliance of internal control systems. Its responsibilities shall inter alia include:

- (a) the recommendation for appointment, remuneration and terms of appointment of auditors of the company;
- (b) review and monitor the auditor's independence and performance, and effectiveness of audit process;
- (c) examination of the financial statement and the auditors' report thereon;
- (d) approval or any subsequent modification of transactions of the company with related parties;
- (e) scrutiny of inter-corporate loans and investments;
- (f) valuation of undertakings or assets of the company, wherever it is necessary;
- (g) evaluation of internal financial controls and risk management systems;
- (h) calls for the comments of the auditors about internal control systems, scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and also discuss any related issues with the internal and statutory auditors and the management of the company;

- (i) establish a vigil mechanism for directors and employees to report genuine concerns in such manner as may be prescribed and oversee the effective implementation of the vigil mechanism of the Company;
- (j) review the Company's arrangements for its Directors and employees to report concerns about unethical behaviour, actual or suspected fraud, violation of the Company's code of conduct and terms of service.
- (k) the Committee must ensure that an Information System Audit of the internal systems and processes is conducted to assess operational risks faced by the Company. Etc

## **2. NOMINATION AND REMUNERATION COMMITTEE:**

The Company has constituted a 'Nomination and Remuneration Committee' in compliance with the provisions of Section 178 of the Companies Act, 2013 and RBI Master Direction No. RBI/DNBR/2016-17/45 DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 on NBFC-SI Non-Deposit taking Company and Deposit taking Company Directions, 2016. The Company has a Board approved Nomination and Remuneration Policy in place and required disclosures to that effect are made from time to time.

### **Composition:**

The Nomination and Remuneration Committee shall consist of three or more non-executive directors out of which not less than one-half are independent directors. However, the Chairperson of the Company (whether executive or non-executive) may be appointed as a member of the committee but shall not chair the said Committee. The Company Secretary shall act as the Secretary to the Committee Meetings.

### **Quorum:**

The quorum for transacting business at a meeting of the Committee shall be at least two or one-third of the members of the Committee, whichever is higher including one Independent Director.

### **Responsibilities:**

Responsibilities of the Nomination and Remuneration Committee shall inter alia include followings:

- (a) To identify 'Fit & Proper' persons who are qualified to become directors;
- (b) To recommend to the Board, appointment of Directors and removal whenever the need so arises;
- (c) To carry out director performance evaluation;
- (d) To formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a Policy, relating to the remuneration for the directors, key managerial personnel and other employees;
- (e) To review the overall compensation structure and policies with a view to retain and motivate the company's employees.
- (f) To consider giving stock options to the employees in the form of equity shares of the Company and also consider any other compensation related issues or matters relating to the company's employees. Etc.

## **3. RISK MANAGEMENT COMMITTEE:**

This Committee is constituted in compliance with the provisions of the Companies Act, 2013 and RBI Master Direction No. RBI/DNBR/2016-17/45 DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 on NBFC-SI Non-Deposit taking Company and Deposit taking Company Directions, 2016. The Company has a Board approved Risk Management Policy in place and required disclosures to the effect are made from time to time.

### **Composition:**

As per Reserve Bank of India guidelines the Board of Directors shall constitute Risk Management Committee (RMC) to manage the integrated risks of the Company, as a good corporate governance practice. The members of Risk Committee shall elect a Chairperson from amongst themselves, who shall Chair this Committee. The Company Secretary shall act as the Secretary to the Committee Meetings.

**Meetings & Quorum:**

The Committee shall meet on quarterly basis and minimum 4 such meetings be held in a financial year. The quorum for transacting business at a meeting of the Committee shall be at least two or one-third of the members of the Committee, whichever is higher.

**Responsibilities:**

Responsibilities of the Risk Committee shall inter alia include followings:

- (a) Approve and monitor the Company's risk management policies and procedures;
- (b) Review portfolio and its delinquency at a product level & NPA Management.
- (c) Review IT Risk assessment of IT systems. Etc.

**4. ASSET-LIABILITY COMMITTEE (ALCO):**

This Committee is constituted in compliance with the provisions of RBI Master Direction No. RBI/DNBR/2016-17/45 DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 on NBFC-SI Non-Deposit taking Company and Deposit taking Company Directions, 2016. The Company has a Board approved Asset Liability Management Policy in place and required disclosures to the effect are made from time to time.

**Composition:**

As per the Reserve Bank of India guidelines on Asset-Liability Management (ALM) System in Non- Banking Financial Companies (NBFCs), it is necessary:

- To formulate and review Asset-Liability Management Policy of the Company
- To constitute The Asset-Liability Committee (ALCO) in order to oversee the risk management policy/strategy of the Company relating to liquidity, interest rate and asset liability gap.
- To invite Head – Risk and Head – Technology at the meeting.

The members of Asset Liability Committee shall elect a Chairperson from amongst themselves, who shall Chair this Committee.

**Meetings & Quorum:**

Committee shall meet generally on monthly basis.

The quorum for transacting business at a meeting of the Committee shall be at least two or one-third of the members of the Committee, whichever is higher.

**Responsibilities:**

Responsibilities of the ALCO shall inter alia include followings:

- (a) Review and management of liquidity gaps and structural liquidity of the Company;
- (b) Review and management of interest rate sensitivity of the Company;
- (c) Develop a view on future direction on interest rate movements and decide on funding mixes. Etc

**5. CORPORATE SOCIAL RESPONSIBILITY (CSR) COMMITTEE:**

This Committee is constituted in compliance with the provisions of Section 135 of the Companies Act, 2013. The Company has a Board approved CSR Policy in place and required disclosures to the effect are made from time to time.

**Composition:**

In terms of Section 135 of the Companies Act, 2013, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility (CSR) Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

The members of CSR Committee shall elect a Chairperson from amongst themselves, who shall chair the said Committee. The Committee shall consist of minimum one (1) Independent Director. The Company Secretary shall act as the Secretary to the Committee Meetings.

**Quorum:**

The quorum for transacting business at a meeting of the Committee shall be at least two or one-third of the members of the Committee, whichever is higher.

**Responsibilities:**

Responsibilities of the CSR Committee shall inter alia include followings:

- (a) Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII of the Companies Act, 2013;
- (b) Recommend the amount of expenditure to be incurred on the activities referred to in above clause;
- (c) Review and recommend any amendments to be made in the CSR policy of the Company.
- (c) Institute a transparent monitoring mechanism for implementation of the CSR Projects or programs or activities undertaken by the Company, Etc.

**6. IT STRATEGY COMMITTEE:**

This Committee is constituted in compliance with the provisions of RBI Master Direction No. RBI/DNBS/2016-17/53 DNBS.PPD.No.04/66.15.001/2016-17 dated June 08, 2017 on Information Technology Framework for the NBFC Sector. The Company has a Board approved Information Technology and Information Security Policy in place and required disclosures to the effect are made from time to time.

**Composition:**

The Committee shall comprise of an independent director, CIO / CTO and any other members as decided by the Board from time to time. The members of IT Strategy Committee shall elect a Chairperson from amongst themselves, who shall chair the said Committee. The Company Secretary shall act as the Secretary to the Committee Meeting.

**Meeting & Quorum:**

The quorum for transacting business at a meeting of the Committee shall be at least two or one-third of the members of the Committee, whichever is higher.

The Committee shall meet at least two times a year and not more than 6 months shall intervene between two consecutive meetings.

**Responsibilities:**

- (a) Approving IT strategy and policy documents and ensuring that the management has put an effective strategic planning process in place.
- (b) Ascertaining that management has implemented processes and practices that ensure that the IT delivers value to the business.
- (c) Ensuring IT investments represent a balance of risks and benefits and that budgets are acceptable.
- (d) Monitoring the method that management uses to determine the IT resources needed to achieve strategic goals and provide high-level direction for sourcing and use of IT resources.
- (e) Ensuring proper balance of IT investments for sustaining Company's growth and becoming aware about exposure towards IT risks and controls.
- (f) Instituting an appropriate governance mechanism for outsourced processes, comprising of risk based policies and procedures, to effectively identify, measure, monitor and control risks associated with outsourcing in an end to end manner.

- (g) Developing sound and responsive outsourcing risk management policies and procedures commensurate with the nature, scope, and complexity of outsourcing arrangements.
- (h) Undertaking a periodic review of outsourcing strategies and all existing material outsourcing arrangements.
- (i) Evaluating the risks and materiality of all prospective outsourcing based on the framework developed by the Board.
- (j) Ensuring an independent review and audit in accordance with approved policies and procedures.
- (k) Ensuring that contingency plans have been developed and tested adequately;
- (l) To adopt sound business continuity management practices as issued by the RBI and seek proactive assurance that the outsourced service provider maintains readiness and preparedness for business continuity on an ongoing basis. Etc.

NOTE: In addition to the aforesaid Committees, the Company has constituted the following Committees:

- Credit Committee;
- Credit Risk Management Committee

### **C. FIT & PROPER CRITERIA:**

The Company has a Board approved Fit & Proper Policy in place and required disclosures to the effect are made from time to time.

In terms of RBI Master Direction No. RBI/DNBR/2016-17/45 DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 on NBFC-SI Non-Deposit taking Company and Deposit taking Company Directions, 2016, the Nomination and Remuneration Committee of the Company ensures the 'Fit & Proper' status of existing / proposed Directors of the Company.

Every individual at the time of his / her appointment / re-appointment and on annual basis, as Director of Company, provides a Fit & Proper declaration in the manner and format as may be prescribed by RBI from time to time.

In case there is no change to the information already provided by the director, declaration to that effect shall be furnished to the Company.

Every Individual, once appointed as Director of the Company shall enter into a Deed of Covenant, as prescribed by RBI, with the Company.

The Company shall ensure to furnish to the Reserve Bank a quarterly statement on change of directors and a certificate from the Managing Director of the NBFC that fit and proper criteria in selection of the directors has been followed. The statement must reach the Regional Office of the Reserve Bank within 15 days of the close of the respective quarter. The statement submitted by the Company for the quarter ending March 31, should be certified by the auditors.

### **D. VIGIL MECHANISM:**

Pursuant to Rule 7 of the Companies (Meetings of Board and its Powers) Rules 2014 read with Section 177(9) of the Act, the Company has framed and adopted Vigil Mechanism Framework ("the framework") to enable directors and employees to report genuine concerns about unethical behaviour, actual or suspected fraud. The objective of this mechanism is to maintain a redressal system which can process all complaints concerning questionable accounting practices, internal controls or fraudulent reporting of financial information.



#### **E. DISCLOSURE AND TRANSPARENCY:**

The Company shall put up to the Board of Directors or its Committee, at regular intervals, as may be prescribed by the Board in this regard, the following:

- The progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the Company.
- Conformity with corporate governance standards viz., in composition of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.

The following shall also be disclosed in the Company's Annual Financial Statements:

- Details of all material transactions with related parties shall be disclosed in the annual report.
- Registration/ licence/ authorisation, by whatever name called, obtained from other financial sector regulators;
- Ratings assigned by credit rating agencies and migration of ratings during the year;
- Penalties, if any, levied by any regulator;
- Information namely, area, country of operation and joint venture partners with regard to Joint ventures and overseas subsidiaries and
- Asset-liability profile, extent of financing of parent company products, NPAs and movement of NPAs, details of all off-balance sheet exposures, structured products issued by the Company as also securitization/ assignment transactions and other disclosures, as may be prescribed by RBI from time to time.

#### **F. ROTATION OF PARTNERS OF THE STATUTORY AUDITORS AUDIT FIRM:**

The Company shall rotate the partner/s of the Chartered Accountant firm conducting the audit, every three years so that same partner does not conduct audit of the company continuously for more than a period of three years. However, the partner so rotated will be eligible for conducting the audit of the Company after an interval of three years, if the Company, so decides. These terms shall be incorporated appropriately in the letter of appointment of the firm of auditors.

#### **G.COMPLIANCE OFFICER:**

The Company Secretary shall be primarily responsible to adhere to the requirements of this Code, as amended from time to time.

#### **H. POLICIES AS PER THE STATUTORY REQUIREMENT:**

The Company, in line with the requirement of the Companies Act, 2013, , the guidelines issued by the Reserve Bank of India and others acts, rules, and regulations applicable to the Company, has framed and adopted following policies which shall form part and parcel of the overall corporate governance framework of the Company. These policies are reviewed and updated at regular intervals based statutory requirement or on modification or amendments of various acts, rules, regulations, statues applicable to the Company.

- Fair Practices Code
- Compliance Policy
- KYC Policy
- Vigil Mechanism



- CSR Policy
- Risk Management Policy
- ALM Policy
- Resource Planning Policy
- Grievance Redressal Mechanism
- Investment Policy
- Policy on Outsourcing of Financial Services
- Interest Rate Policy
- IT policy
- Information system security policy
- Cyber security policy
- IS Audit Policy
- Business Continuity Management Policy, etc.

**I. REVIEW OF GUIDELINES:**

The Board or any of its Committee may review the Framework from time to time in order to align with the prevalent regulatory and business requirements.

Changes, if any, shall be effective only upon approval by the Board.